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CHINA: TRADE ISSUES

In conjunction with China's economic growth over the last decade, China has become a major exporter to the United States to the extent that last year (1993) we had a trade deficit with China amounting to an estimated \$23 billion. We have been holding discussions with China aimed at opening the Chinese market to more U.S. products and protecting U.S. industry in China. A summary of current trade issues follows:

Market Access: The U.S. and China signed a Market Access MOU in October 1992 in which China committed to significant liberalization of its import regime. China has taken steps to implement the agreement and we believe it is largely in compliance. USTR Kantor indicated this at the end of his textile press conference January 6. We still have problems in the area of agriculture and are seeking to address them. Other issues in our market access talks include:

- Transparency: The Chinese have not published a list of companies having import/export authority and have not made public the complete import approval process. However, they have published the titles of a large number of Chinese laws and regulations relating to trade, and we expect to see more published by the end of January.
- Quotas: The Chinese have offered 18-25 percent increases in quotas on products of interest to the U.S. (computers, medical equipment, heavy machinery, and distilled spirits). We believe potential market growth to be almost double that in some areas and are seeking higher quota increases. The Chinese have switched a large number of products from items under "import controls" to items subject to "international tender." We are continuing discussions on what international tendering means in the Chinese context.
- Phytosanitary Measures: While we have seen progress on import of apples from Washington state and on imports of bovine semen and dogs, the Chinese still have not established a scientific basis for the phytosanitary standards they apply to U.S. agricultural products. This continues to present unjustifiable barriers to exports of California fruits and other U.S. agricultural products.

Intellectual Property Rights (IPR): China has lived up to most provisions of our bilateral IPR MOU. The remaining problem is lack of resources and enforcement capability within the provinces in support of the agreement. U.S. firms have to police their own products and then hope the information will be acted on promptly by the authorities. Mid-December consultations saw a marked positive change in the Chinese attitude toward IPR enforcement, but the change has not yet

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-2-

manifested itself in new and effective IPR enforcement actions. This could lead to a new section 301 investigation, or we could impose sanctions by claiming that China is not fulfilling its obligations under the IPR agreement. Piracy of video tapes, sound recordings, computer programs, and books is a serious problem, causing increasing losses to U.S. copyright industries. We hope to go to Beijing at the end of February to continue discussions on IPR enforcement and, perhaps, to offer technical assistance from U.S. agencies involved in IPR protection.

Services: The Chinese have agreed to hold a first round of talks on services in late February. We will explore market opening measures in information services, retailing, insurance, and "doing business" issues such as hiring and other labor practices.

Textile Transshipments: Our textile agreement with China expired at the end of 1993. We estimate the value of transshipped Chinese textiles goods exceeds \$1.5 billion annually. We are not satisfied with Chinese efforts to eliminate the improper marking and transshipment of Chinese-manufactured textiles through third countries to take advantage of more favorable textile quota arrangements. USTR Kantor, on January 6, announced a cut of an average 25 percent in almost all categories of China's textile exports to the United States with 30 percent cuts in eight categories showing especially high rates of transshipment. Negotiators will travel to China this weekend to continue talks in hopes of resolving our differences before the cuts go into effect January 17.

Trade in Endangered Species: On September 7, Secretary Babbitt certified to the President under the Pelly Amendment that Chinese nationals are undermining the effectiveness of the Convention on International Trade in Endangered Species (CITES) by continuing to trade in rhino and tiger products. This led to the President's November 6 report to Congress giving China until March to show significant, measurable, and verifiable progress in eliminating the trade, but announcing no immediate import prohibitions. China has taken several recent actions, including the prosecution of over 4300 cases and the introduction of several educational measures, to eliminate both the demand and the trade in these products.

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